Compounder Fund Investors' Letter: Fourth Quarter of 2022

COMPOUNDER FUND
GROWING YOUR WEALTH AND ENRICHING SOCIETY

Dear investors,

I'm presenting Compounder Fund's 2022 fourth-quarter investors' letter together with my co-founder Jeremy Chia.

During the quarter, Compounder Fund's overall net-of-fee return for the earliest series of its Class A and Class B shares were both -4.8%. Over the same period, the dividend-adjusted Singapore-dollar returns for the MSCI World Index and the S&P 500 were 2.5% and 0.3%, respectively. Tables 1 and 2 below show the returns for Compounder Fund's two share classes (the earliest series for each share class), the MSCI World Index, and the S&P 500, since the birth of the fund.

Table 1

Time period	Compounder Fund Class A (after fees)	MSCI World**	S&P 500**
2020*	11.2%	14.6%	14.2%
2021	0.9%	24.8%	31.2%
Q1 2022	-18.9%	-4.6%	-4.1%
Q2 2022	-27.0%	-13.9%	-14.0%
Q3 2022	-0.8%	-2.9%	-1.7%
Oct 2022	1.6%	5.7%	6.5%
Nov 2022	2.0%	3.5%	2.2%
Dec 2022	-8.1%	-6.3%	-7.8%
Q4 2022	-4.8%	2.5%	0.3%
2022	-44.1%	-18.3%	-18.7%
Total return since inception*	-37.3%	16.9%	21.9%
Annualised return since inception*	-17.2%	6.5%	8.4%

**Inception date: 13 July 2020*
***MSCI World Index and S&P 500 returns are in Singapore-dollar terms, with dividends reinvested*

Table 2

Time period	Compounder Fund Class B (after fees)	MSCI World**	S&P 500**
2020*	6.8%	10.4%	8.6%
2021	0.9%	24.8%	31.2%
Q1 2022	-18.9%	-4.6%	-4.1%
Q2 2022	-27.0%	-13.9%	-14.0%
Q3 2022	-0.8%	-2.9%	-1.7%
Oct 2022	1.6%	5.7%	6.5%
Nov 2022	2.0%	3.5%	2.2%
Dec 2022	-8.1%	-6.3%	-7.8%
Q4 2022	-4.8%	2.5%	0.3%
2022	-44.1%	-18.3%	-18.7%
Total return since inception*	-39.8%	12.7%	15.9%
Annualised return since inception*	-20.2%	5.5%	6.8%

**Inception date: 13 July 2020*
***MSCI World Index and S&P 500 returns are in Singapore-dollar terms, with dividends reinvested*

Jeremy and I are comparing Compounder Fund's performance with the MSCI World Index and the S&P 500 to provide an indication of how the fund is faring against a broad group of stocks that are listed across the world and in the USA.

As you know, Compounder Fund's investment mandate is global in nature. This means the fund can invest in any listed stock in the world; it also makes the MSCI World Index a sensible index for context about Compounder Fund's performance. But since most of Compounder Fund's holdings are currently US-listed stocks, it's also important to Jeremy and me that we compare the fund's performance with a prominent US stock market index, in this case, the S&P 500. If Compounder Fund is doing better than the MSCI World Index, comparing the fund's return with the S&P 500 helps us see if the outperformance is simply due to a rising tide in US stocks.

It's been more than two years since we started investing Compounder Fund's capital on 13 July 2020 and it has been disappointing. The fund's return has not only been negative since its inception, but it has also substantially underperformed both market indices. Compounder Fund's underlying businesses continue to do well, but their stock prices have not. This has been an ongoing theme since 2021 and it's something I've discussed in a number of past letters; I will have more to say on this topic in the "*Wonderful businesses"* section of this letter.

Jeremy and I are clear that the fund exists to ultimately produce a positive *and* healthy return over the long run for all of you, and not merely to invest in stocks with growing businesses. **We understand too that discussion about the fund's underlying businesses can ring empty when their stock prices have fared so poorly**, ***especially*** **when most of the**

holdings had high valuations when we first invested in them (the valuation numbers can be found in our investment theses for the holdings). But I have repeatedly emphasised, in our past letters, how our stocks' underlying *businesses* have been doing because what ultimately drives a stock's price over the long run is its business performance. Over the short run, stock prices and business fundamentals can diverge wildly, but they tend to converge with the passing of time. I discussed this concept in depth in the "*An unfortunate but necessary disconnect"* section of our **2022 third-quarter letter**. In the same letter, I brought up Walmart's experience in the 1970s in the "*Recession, inflation, and interest rates*" section:

> As inflation was raging in the USA in the 1970s, Walmart produced breath-taking business growth from 1971 to 1980. Table 17 shows the near 30x increase in Walmart's revenue and the 1,600% jump in earnings per share in that period. This exceptional growth did not help with Walmart's short-term return (remember the Berkshire episode?). Based on the earliest data I could find, Walmart's stock price *fell* by *three-quarters* from less than US$0.04 in late-August 1972 to around US$0.01 by December 1974 - in comparison, the S&P 500 was down by 'only' 40%. But by the end of 1979 (when inflation in the USA peaked during the 1970s), Walmart's stock price was above US$0.08, more than double what it was in late-August 1972 (when inflation was at a low in the 1970s). Still, the 2x-plus increase in Walmart's stock price was far below the huge increase in earnings per share the company generated. This is where the passage of time helped - as more years passed, the weighing machine clicked into gear. At the end of 1989, Walmart's stock price was around US$3.70, representing an annualised growth rate in the region of 32% from August 1972; from 1971 to 1989, Walmart's revenue and earnings per share grew by 41% and 38% per year.

What I did not mention in the section was Walmart's valuation. It turns out that in late-August 1972, when its stock price was less than US$0.04, Walmart's price-to-earnings (P/E) ratio was between 42 and 68 (I couldn't find quarterly financial data for Walmart for that time period so I worked only with annual data). This is a high valuation. If you looked at Walmart's stock price in December 1974, after it had sunk by 75% to a low of around US$0.01 to carry a P/E ratio of between 6 and 7, the easy conclusion is that it was a mistake to invest in Walmart in August 1972 because of its high valuation. But as can be seen above, Walmart's business continued to grow and its stock price eventually soared to around US$3.70 near the end of 1989. Even by the end of 1982, Walmart's stock price was already US$0.48, up more than 10 *times* where it was in late-August 1972. **What looked like a horrendous mistake in the short run turned out to be a wonderful decision in the long run because of Walmart's underlying business growth**. **When we're making investments for Compounder Fund, we're always aware that we may have invested in the Walmarts of 1972 and thus could end up with the Walmarts of 1973-1974. But our eyes are fixed firmly on the prize we could potentially collect with the Walmarts of 1982 and 1989.** It's also worth keeping in mind that the market's biggest long-term winners have also looked like the Walmart of 1973-74 at some point - sometimes, at multiple points - in their journey to becoming the Walmart of 1982 and 1989. This is a concept I've discussed in the past, such as in the "*An unfortunate but necessary disconnect*" section of our 2022 third-quarter letter and in the "*Investing thoughts: The need for patience"* section of our **2021 third-quarter letter**.

Times like these are not easy for any of you. We *know*. Charlie Munger - Warren Buffett's long-time right-hand man - was once asked about the lessons he learnt from his investment fund's big losses in 1973 and 1974 (his total loss in that period was 53%). He said:

> "It didn't bother me with my own money, but it made me suffer the tortures of hell as I thought through the loss of morale of the limited partners who had trusted me."

It's the same anguish we feel when we think of you. But at the same time, you have provided us with gentle patience and the space to engage in long-term thinking about stocks - **we're incredibly grateful for this**. With your strong support, Jeremy and I are taking the long-term approach here at Compounder Fund, where the fund's return will come from the underlying business performances of its holdings. I've mentioned in many past letters that you should never underestimate the importance of your role in shaping Compounder Fund's long-term return and I'll like to do so here again. In the "*Investing thoughts: What's our edge?*" section of our **2020 fourth-quarter letter**, I discussed the three sources of investing edge that exist in the stock market and how all of you - Compounder Fund's investors - **play a critical role in helping Jeremy and me produce the behavioural edge**. In what has been a rough period for Compounder Fund over the past two-plus years, you have helped us produce the behavioural edge. ***Thank you.***

Judging our performance

In all our **previous quarterly investors' letters**, I've provided a discussion on how Jeremy and I intend to judge Compounder Fund's performance. If this is the first investor's letter from us that you're seeing, *please* read this section. If this is not your first letter, you can take it as a refresher.

Our target for Compounder Fund is to generate an annual return of 12% or more over the long run (a five- to seven-year period, or longer) for the fund's investors, net of all fees. When Warren Buffett was running an investment fund in the 1950s and 1960s, he shared his thoughts on a suitable time frame to assess the performance of an investment manager:

> "While I much prefer a five-year test, I feel three years is an absolute minimum for judging performance. It is a certainty that we will have years when the partnership performance is poorer, perhaps substantially so, than the [market]. If any three-year or longer period produces poor results, we all should start looking around for other places to have our money. An exception to the latter would be three years covering a speculative explosion in a bull market."

Jeremy and I fully agree with Buffett. **We hope that you, as an investor in Compounder Fund, will judge its performance over a three-year period at the *minimum***.

It will be very disappointing for the both of us too if Compounder Fund fails to beat the MSCI World Index and the S&P 500 over a five- to seven-year timeframe. Jeremy and I believe that having a thoughtful investment framework to find Compounders, and the willingness and ability to hold the shares of Compounders for years, will likely lead us to market-beating returns. Do note, however, that we harbour *no* illusion that we're able to beat the indices each month, each quarter, or each year. The willingness comes from our ingrained long-term view towards the market. The ability, though, comes from *your* keen understanding of our investment approach.

Some caution is needed here: **The stock market is volatile**. The returns of Compounder Fund in the future will very likely *not* be smooth - this is just how stocks work. And indeed, we've already experienced significant volatility in the results of Compounder Fund since its

inception. If the market falls in the future, you should expect Compounder Fund to decline by a similar magnitude or more. But this will likely only be short-term pain. Jeremy and I believe in the long-term potential of the stock market, and especially in the underlying businesses of the stocks in Compounder Fund's portfolio.

Speaking of volatility, I want to discuss the important concept of 'the destination'. I first heard about it from a friend - an incredibly impressive young investor and person - who in turn learnt about it from Nicholas Sleep, one of the best investors I've read about. After retiring in the mid-2010s and initially wanting to be outside the public eye, Sleep published a collection of his investment letters in 2021 on the **website** of his charitable foundation, I.G.Y (do check out his letters - they're a fantastic read). To illustrate the concept, I will need you to first think about two sequences of returns over a five year period, shown in Table 3:

Table 3

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Sequence A return	+50%	+28%	+3%	+15%	+5%	**139%**
Sequence B return	+5%	+15%	+3%	+28%	+50%	**139%**

Both sequences result in the same total return - the journey is different, but the destination is the same. Interestingly, even though the end results are identical, we humans tend to prefer Sequence B over Sequence A. This is because Sequence B's return looks better to us compared to Sequence A's, since the former improved over time while the latter deteriorated. As humans, we exhibit natural psychological biases that cause us to favour more recent data.

This is important to note because **when investing in stocks, it's often much easier to know the destination than it is to know the journey**. Jeremy and I have absolutely *no* control over the journey of returns for Compounder Fund - what we have is a great degree of control over the destination. This 'great degree of control' comes from our careful selection of the companies that Compounder Fund owns shares in. And I say 'a great degree of control' and not 'full control' because luck *will* play some role in Compounder Fund's eventual gain. So you should expect Compounder Fund's return - and indeed, that of all stocks - to bounce around wildly in the short term. We've already seen such a bounce happen in an unwanted direction (downwards) but over the long run, Compounder Fund's return should gravitate toward the long term business performances of the companies it owns partial stakes in. There's no guarantee that this gravity will be a strong upward pull though. The direction of the gravitational force will depend on whether our insights - on the abilities of Compounder Fund's companies to grow their businesses at high rates over the long run - turn out to be correct. **In this regard, it's been so far, so good, as I'll discuss in the "*Wonderful businesses*" section of this letter**.

We're fast approaching the three-year mark at Compounder Fund and as I mentioned in the introductory section of this letter, the performance of the fund in terms of stock prices has been nothing but disappointing. The journey so far has been rough on all of us at Compounder Fund, to say the least. But Jeremy and I find solace in the business performances of the fund's holdings and this is what gives us confidence that when Compounder Fund's *stock price* performance is eventually weighed in the fullness of time, a favourable judgement is likely to result.

Portfolio changes

On 21 November 2022, I **published an update** on Compounder Fund's portfolio on the fund's website and also notified all of you via email. In the update, I mentioned a few things: (a) all 49 holdings that were in the fund's portfolio; (b) our full sale of Twilio from the fund; and (c) developments with the acquisitions of Activision Blizzard and Pushpay. Since the update, there have been some changes to the portfolio and more changes are - or could be - on the way.

The first change to the portfolio is that we sold all of Compounder Fund's Pushpay shares in late-December 2022 at an average price of A$1.22 per share. We decided to part ways with Pushpay after we found an attractive redeployment opportunity in Hingham Institution of Savings, a bank that is listed and headquartered in the USA (Compounder Fund's Hingham shares were bought shortly after Pushpay's sale). We'll be publishing our investment thesis on Hingham on the fund's website in the coming weeks (we'll inform you when it's released). But meanwhile, here's a brief description of the bank:

- Founded in 1834, the Massachusetts-based Hingham is one of the oldest banks in the USA. It's also one of the most interesting banks we've come across, although it's not the impressive longevity that caught our eye. Instead, it was Hingham's remarkable focus. Hingham is led by Robert Gaughen Jr - who has been CEO since 1993 after his father, Robert Gaughen, won a proxy battle in the same year to unseat the bank's then-leaders after years of mismanagement - and it has an extremely simple business. It does commercial real estate and residential real estate lending, and offers deposit services for businesses and consumers. Even within commercial real estate lending, Hingham focuses on commercially-run properties that are used for residential purposes.
- Under Gaughen Jr's leadership, Hingham has translated its business-simplicity into excellent long-term results. From 1993 to 2021, Hingham's book value per share - a key measure of a bank's intrinsic value - grew in *every single year* and compounded at 11.8% annually. Over the same period, the bank was also profitable every year and its average return on equity was a respectable 13.9%. Hingham's profitability in this timeframe is even more noteworthy when considering two things: (1) The bank was - and is - principally engaged with residential-related real estate lending; and (2) the timeframe covers the 2007-09 Great Financial Crisis, a period that saw many American banks suffer financially and US house prices crash. For perspective, while US banks generated returns on equity (ROEs) of 0.7% and -0.7% in 2008 and 2009, Hingham's ROEs were significantly higher at 11.1% and 12.8%.
- Hingham's admirable track record is the result of management's prudence. For instance, Table 4 demonstrates that Hingham's net charge-offs (the percentage of outstanding loans that are unlikely to be recovered) have been nearly non-existent since 2005, indicating minimal loan losses for the bank over that time period. Table 4 also shows that Hingham's net charge-offs are extraordinarily low compared to the net charge-offs for the US banking industry's real estate loans. In another example, Hingham's average efficiency ratio from 2016 to 2021 was an impressive 28%, a significantly lower figure compared to the average efficiency ratios over the same timeframe for the US's five largest banks at the moment: JPMorgan at 58%, Bank of America at 63%, Citigroup at 60%, Wells Fargo at 67%, and US Bancorp at 57%. (The efficiency ratio is a measure of a bank's profitability and it is calculated by dividing a bank's operating expenses by its revenue; the lower the ratio, the better.)
- Another aspect of Hingham we're attracted to is the way it invests in stocks. As of 30 September 2022, Hingham has a portfolio worth US$72.3 million, which is 19% of the

bank's book value. Hingham's leaders manage the portfolio to "produce superior returns on capital over a longer time horizon," a trait we have not commonly seen in other banks. What particularly caught our attention was Hingham's investment process. According to Hingham's latest annual report, the bank's leaders focus on businesses "with strong returns on capital, owner-oriented management teams, good reinvestment opportunities or capital discipline, and reasonable valuations." Management also "views [the holdings] as long-term partnership interests in operating companies." As far as we can tell, Hingham has not publicly shared details about the composition of its portfolio and its performance. But management's description of the way they invest still resonates with us because the core of the investment process is about identifying great businesses and patiently holding their shares.

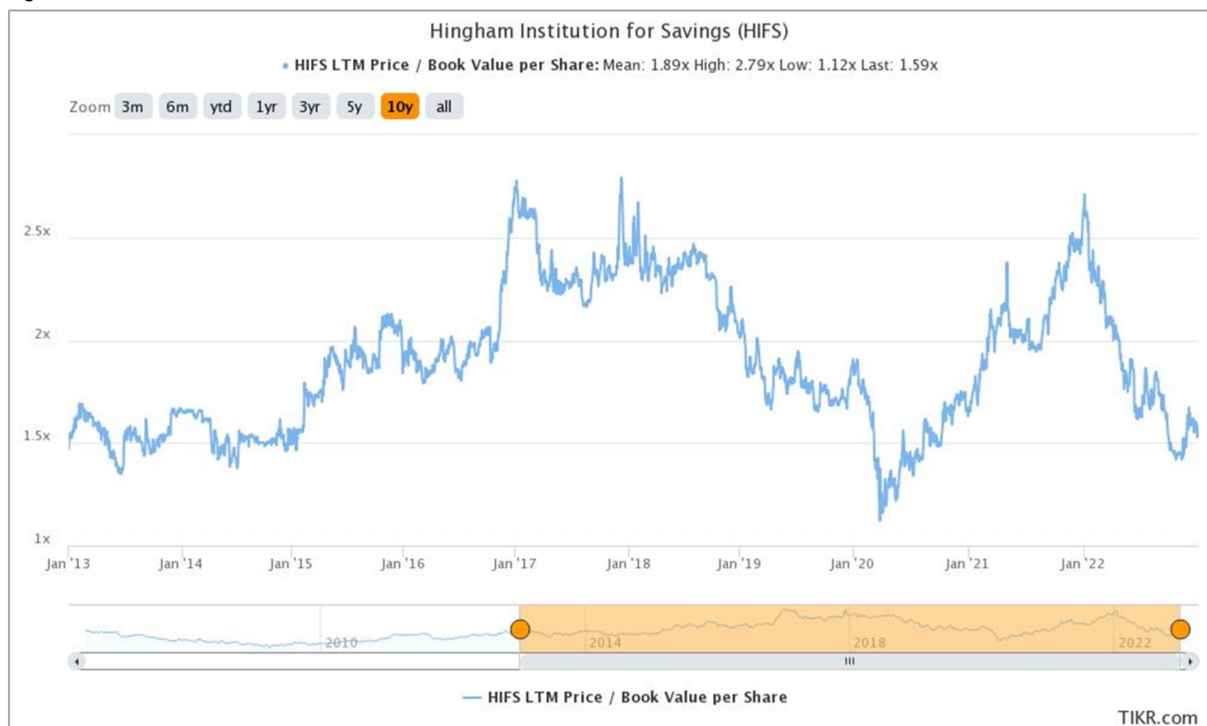
- With total loans of just US$3.56 billion as of 30 September 2022, Hingham has massive room for growth in the USA alone. For context, the US banking industry has total loans of US$12.0 *trillion* as of 30 September 2022.
- At our initial purchase price of US$275, Hingham's shares carried a price-to-book (P/B) ratio of just 1.57. Figure 1 below shows that the P/B ratio of 1.57 is near the low-end of where it has been over the decade ended 2022.

Table 4

Time period	Hingham net charge-offs as percentage of loans outstanding	US banking industry's real estate loans net charge-offs as percentage of real estate loans outstanding
Year 2005	~0%	0.05%
Year 2006	0.00%	0.08%
Year 2007	0.00%	0.24%
Year 2008	0.03%	0.98%
Year 2009	0.07%	2.04%
Year 2010	0.02%	1.97%
Year 2011	0.06%	1.34%
Year 2012	0.03%	1.02%
Year 2013	-0.01%	0.48%
Year 2014	0.00%	0.20%
Year 2015	-0.01%	0.13%
Year 2016	0.00%	0.06%
Year 2017	0.00%	0.03%
Year 2018	0.00%	0.01%
Year 2019	0.00%	0.01%
Year 2020	0.01%	0.04%
Year 2021	0.00%	0.01%

Source: Hingham annual reports, and Federal Deposit Insurance Corporation data

Figure 1



Source: Tikr

The second change to Compounder Fund's portfolio also happened in December 2022 when Haidilao spun off its international operations into a separate entity named Super Hi International, which is listed in Hong Kong (with the ticker symbol "9658") but headquartered in Singapore. Super Hi's shares started trading in the Hong Kong stock market on 30 December 2022 and Haidilao shareholders were given one Super Hi share for every 10 Haidilao shares held. Since Compounder Fund owns 43,000 Haidilao shares, the fund received 4,300 Super Hi shares. Jeremy and I have decided for Compounder Fund to hold onto the Super Hi shares because Haidilao's growth prospects outside of China was also a part of our **thesis** when we first invested in the company. But we won't be publishing a detailed write-up on Super Hi since it merely holds all of Haidilao's businesses outside of Greater China (this geography comprises mainland China, Hong Kong, Macau, and Taiwan); after the spin-off, Haidilao will be focussed on the Greater China region. What I'll do in this section is to briefly describe Super Hi's business:

- Haidilao's international expansion started in 2012 when it opened an outlet in Singapore, its first outside of China. The company steadily grew its international presence over time but accelerated the growth of its international restaurant network only in recent years. For perspective, Super Hi's restaurant count was 38, 74, and 94, respectively, at the end of 2019, 2020, and 2021. As of 11 December 2022, Super Hi ran 110 restaurants in 11 countries across Asia, North America, Europe, and Oceania (see Table 5 for a precise breakdown). Nearly all of these are *Haidilao*-branded hotpot restaurants, with just two being other brands. During the first half of 2022, Super Hi earned US$245.8 million in revenue, of which 97.5% came from the company's restaurants. In the same period, Southeast Asia was the most important geography for Super Hi, accounting for 68.0% of total revenue; North America, East Asia, and Others took up the remaining share at 12.2%, 10.6%, and 9.2%, respectively.
- According to Super Hi's listing prospectus, Chinese cuisine restaurants can be found in over 130 countries. As of 2021, there were more than 600,000 Chinese cuisine

restaurants outside of China, of which 134,000 are hotpot restaurants. These hotpot restaurants' revenue in 2021 was US$28.9 billion; in 2019, prior to the emergence of COVID-19, the global hotpot restaurant market, excluding China's, was US$37.3 billion. These numbers dwarf Super Hi's current restaurant count (110) and revenue (US$423.4 million in the 12 months ended 30 June 2022), and suggest a long growth-runway for the company. Super Hi's market opportunity looks even better if the entire Chinese cuisine restaurant market, excluding China's, is considered; in 2021 and 2019, Chinese cuisine restaurants outside of China generated revenue of US$261.1 billion and US$334.3 billion, respectively.

- Zhou Zhaocheng, 49, is Super Hi's CEO and he first joined Haidilao, as chief strategy officer, in April 2018. We appreciate the fact that Zhou already has a few years of experience as a senior leader of Haidilao. But the command of Super Hi ultimately rests in the hands of Haidilao's co-founders, the husband and wife team of Zhang Yong and Shu Ping. The couple are majority shareholders of Super Hi and they currently control more than 54% of the company's shares.
- When Jeremy and I first invested in Haidilao, we were - and still are - attracted to its unique corporate culture. For example, Haidilao's management team leads the company with kindness in mind; nearly all of the company's restaurant managers started in non-managerial positions and steadily rose through the ranks; restaurant managers get to share in the profits of the restaurants that they *and* their first- and second-generation mentees manage; and employees are given service-autonomy within the company's restaurants to delight customers. Given Super Hi's current link with Zhang Yong and the fact that it was spun out of Haidilao, we were not surprised to learn that Haidilao's unique cultural traits are found in Super Hi too.
- The earliest financials we have for Super Hi go back to only 2019. In that year, the company experienced a loss because new restaurants accounted for a large portion of its total restaurant count (for perspective, Super Hi expanded into six new countries - Australia, Indonesia, Malaysia, Thailand, the UK, and Vietnam - in 2019). Since then, Super Hi's business results have been hurt by COVID-19. In 2020 and 2021, all of Super Hi's restaurants were subjected to some form of COVID-19 restrictions. But in 2022 - especially since June - the situation has improved for Super Hi, as COVID-19 gradually came under control in its geographies. Table 6 below shows Super Hi's revenue, net profit, operating cash flow, and free cash flow from 2019 to the first half of 2022.
- Super Hi's recent poor financial results is not entirely COVID-19's fault - the company also suffered from self-inflicted wounds. But the good thing is management is in the midst of rectifying the problems. In the "*Portfolio management thoughts: Haidilao's Starbucks moment"* section of Compounder Fund's **2021 fourth-quarter letter**, I discussed Haidilao's mistake of expanding its restaurant network too quickly in 2020 and 2021 and the company's measures - introduced in November 2021 - to improve the operating performance of its business. These measures include slowing down the pace of restaurant openings and changing the way the company's restaurants are managed, and they delivered positive results for Haidilao in the first half of 2022. Super Hi had implemented similar measures while new ones were also introduced throughout 2022 - collectively, they've led to improvements in Super Hi's operations. As of 11 December 2022, Super Hi only had four restaurants that had yet to achieve initial monthly breakeven, and only three of them had been in operation for more than six months.

Table 5

Country (regional classification)	Number of Super Hi restaurants as of 11 December 2022
Japan (East Asia)	10
Korea (East Asia)	7
Canada (North America)	5
USA (North America)	13
Australia (Others)	5
United Kingdom (Others)	3
Indonesia (Southeast Asia)	8
Malaysia (Southeast Asia)	15
Singapore (Southeast Asia)	19
Thailand (Southeast Asia)	9
Vietnam (Southeast Asia)	16

Source: Super Hi listing prospectus

Table 6

Super Hi financial metric	Year 2019	Year 2020	Year 2021	First half of 2021	First half of 2022
Revenue (US$, million)	233.1	221.4	312.4	134.8	245.8
Net profit (US$, million)	-33.0	-53.8	-150.8	-51.5	-55.7
Net profit margin	-14.2%	-24.3%	-48.3%	-38.2%	-22.7%
Operating cash flow (US$, million)	16.5	2.8	4.4	-8.5	30.4
Operating cash flow margin	7.1%	1.2%	1.4%	-6.3%	12.3%
Free cash flow (US$, million)	-69.0	-114.5	-65.6	-56.4	-0.7

Source: Super Hi listing prospectus

One change to Compounder Fund's portfolio that would happen in the near future involves Tencent and Meituan. Tencent announced in November 2021 that it will distribute 90.9% of its Meituan stake to its shareholders. Tencent shareholders will receive 1 Meituan share for every 10 Tencent shares that they own in March this year. Compounder Fund owns 5,600 Tencent shares, so it will become a direct owner of an additional 560 Meituan shares soon. Compounder Fund has been a shareholder of Meituan since July 2020 and Jeremy and I intend for Compounder Fund to retain its ownership of the distributed Meituan shares. Tencent's latest corporate action with Meituan is its second major disposition of shares - following the distribution of JD.com shares in the first quarter of 2022 - from its massive portfolio of investments (worth US$123 billion as of 30 September 2022). In Compounder Fund's **2021 fourth-quarter letter**, I discussed the JD.com distribution and our thoughts on its implications on our Tencent investment:

> "We have no insight on the actual motivation of Tencent's management behind this distribution. From our vantage point, there are three possible reasons for the move: (1) it is driven by the wishes of the Chinese government to reduce Tencent's sway in China's technology sector; (2) it is an isolated manoeuvre by Tencent's management to unlock value from the company's JD.com shares after first making the investment more than seven years ago in 2014; and (3) it is the start of a coherent strategy by Tencent's management to unlock the value of the company's massive portfolio of investments.
>
> **Implications that come with the first reason**: If true, this would be troubling. Tencent could be forced in the future to offload or spin off its investment portfolio in ways that are harmful for its shareholders - for example, Tencent could be pushed to sell a minority investment when its stock price is temporarily depressed. In the "*Investing thoughts: Investing in China*" section of Compounder Fund's 2021 third-quarter letter, I discussed the recent flurry of regulatory changes to China's business landscape and how Jeremy and I can't tell what the key intention of the Chinese government is behind these changes (one of the possible intentions I brought up is the Chinese government's desire to consolidate power). Tencent's distribution of its JD.com shares could be related to the regulatory changes that were discussed in our 2021 third-quarter letter. We will be watching developments with Tencent's investment portfolio as it could contain clues on how the Chinese government thinks about the country's large private-sector companies.
>
> **Implications that come with the second reason**: If true, then there's nothing to see here.
>
> **Implications that come with the third reason**: If true, we see it as a positive development for our Tencent investment. Large conglomerates often carry a "holding discount," where the sum of the intrinsic values of each of a conglomerate's various holdings outweighs the conglomerate's overall market capitalisation. It's possible that the market is applying a holding discount to Tencent's investment portfolio. Coherent attempts by Tencent to unlock the value of its portfolio of investments should *do no harm to its core businesses' growth,* in our opinion. So it's a move that would be neutral at-worst or positive at-best. We like these odds.
>
> All told, we can't tell which possible reason is true. There may even be a combination of any two of the reasons in Tencent's decision to distribute its JD.com shares. We're adopting a watch-and-learn stance with Tencent. There's still much to like about its core businesses (WeChat and digital gaming) and relatively nascent businesses

> (such as cloud computing), and this is why it still has a place in Compounder Fund's portfolio."

With this latest development involving Meituan, we can rule out the second reason from the three mentioned above. It remains to be seen whether the first or third reason is the dominant factor behind Tencent's distributions of its JD.com and/or Meituan shares. So we're still in "watch-and-learn" mode with Tencent and its future plans for its investment portfolio.

Finally, a potential change that could happen to Compounder Fund's portfolio in the near future is Microsoft's pending acquisition of Activision. There was a material development that happened in early-December: The US FTC (Federal Trade Commission) had challenged the deal. But Activision's CEO Bobby Kotick published a brief public letter shortly after the FTC's announcement and reiterated his belief that the acquisition would cross the finish-line:

> "I wanted to provide a brief update on our pending merger with Microsoft. This week the U.S. Federal Trade Commission (FTC) announced its decision to challenge the deal. This means they will file a lawsuit to block the merger, and arguments will be heard by a judge. This sounds alarming, so I want to reinforce my confidence that this deal will close. The allegation that this deal is anti-competitive doesn't align with the facts, and we believe we'll win this challenge."

We don't have any special insights on the FTC's thought process so we're watching how the situation unfolds. As first discussed in Compounder Fund's **2022 first-quarter letter**, Jeremy and I intend for the fund to hold onto its Activision shares and receive the cash from Microsoft if and once the acquisition is completed (but our intention could change depending on developments at both companies and the stock market in general).

As you know, Compounder Fund is able to accept new subscriptions once every quarter with a dealing date that falls on the first business day of each calendar quarter. In the middle of December 2022, Jeremy and I successfully closed Compounder Fund's ninth subscription window since its initial offering period (which ended on 13 July 2020) and raised a net amount of S$0.03 million. This new capital was deployed quickly in the days after the last subscription window's dealing date of 2 January 2023 and we added to Compounder Fund's Adyen position.

In Compounder Fund's **Owner's Manual**, we mentioned that "if Compounder Fund receives new capital from investors, our preference when deploying the capital is to add to our winners and/or invest in new ideas." We added to Adyen at a stock price of €1,300, which is significantly lower than our initial average purchase price of €1,871 per share. But the company has continued to execute well since our first investment in early-April last year so it has been a winner, according to our definition. In the first half of 2022, Adyen's net revenue jumped 36.7% year-on-year to €608.5 million and its free cash flow was up 25.4% to €308.9 million. The free cash flow margin, while lower than the 55.4% seen a year ago, remained excellent at 50.8%. Adyen's lower stock price helped improve its price-to-free cash flow (P/FCF) ratio from 101 at our initial investment to 64 when we added to the position earlier this month.

As of this letter's publication, we have released our investment theses on all the companies that are currently in Compounder Fund's portfolio, except for Hingham, and they can be **found here**. I've already mentioned that you can expect to see our thesis for Hingham in the weeks ahead. Here's how Compounder Fund's portfolio of 50 companies looks like as of 9 January 2023:

Table 7

Company	Weighting	Country/Region of listing	Headquarters
MercadoLibre	5.0%	USA	Argentina
Tractor Supply	4.6%	USA	USA
Costco	4.0%	USA	USA
Netflix	3.8%	USA	USA
Microsoft	3.7%	USA	USA
Mastercard	3.4%	USA	USA
Amazon	3.4%	USA	USA
Meta Platforms	3.3%	USA	USA
Visa	3.3%	USA	USA
Alphabet	3.2%	USA	USA
Apple	3.2%	USA	USA
Chipotle Mexican Grill	3.2%	USA	USA
ASML	3.0%	USA	Netherlands
Tencent	2.9%	Hong Kong	China
Intuitive Surgical	2.9%	USA	USA
Markel	2.7%	USA	USA
Etsy	2.5%	USA	USA
The Trade Desk	2.4%	USA	USA
Adobe	2.4%	USA	USA
Starbucks	2.3%	USA	USA
PayPal	2.2%	USA	USA
Activision Blizzard	2.0%	USA	USA
Shopify	2.0%	USA	Canada
DataDog	1.8%	USA	USA
Medistim	1.8%	Norway	Norway
Veeva Systems	1.7%	USA	USA
Medpace	1.6%	USA	USA
Tesla	1.5%	USA	USA
Salesforce	1.5%	USA	USA
Haidilao	1.5%	Hong Kong	China
Meituan	1.5%	Hong Kong	China
Illumina	1.5%	USA	USA
Hingham	1.5%	USA	USA
Adyen	1.3%	Netherlands	Netherlands
Block	1.3%	USA	USA
TSMC	1.2%	USA	Taiwan
MongoDB	1.1%	USA	USA
DocuSign	1.1%	USA	USA

Table 7 (continued from above)			
Company	**Weighting**	**Country/Region of listing**	**Headquarters**
Okta	0.9%	USA	USA
Wix	0.9%	USA	Israel
Wise	0.8%	UK	UK
Zoom	0.8%	USA	USA
Paycom Software	0.8%	USA	USA
dLocal	0.6%	USA	Uruguay
Sea	0.5%	USA	Singapore
Fiverr	0.4%	USA	Israel
Coupang	0.3%	USA	South Korea
Alteryx	0.2%	USA	USA
Upstart	0.1%	USA	USA
Super Hi	0.1%	Hong Kong	Singapore
Cash	**0.3%**	**-**	**-**

**0.3% of the Block position comes from Block shares that are listed in Australia, but for all intents and purposes, we see the Australia-listed Block shares as being identical to the US-listed variety*

Table 8 below shows the high-level geographical breakdown of Compounder Fund's portfolio as of 9 January 2023:

Table 8

Country/Region	% of Compounder Fund's capital based on country of listing	% of Compounder Fund's capital based on location of headquarters
Argentina	-	5.0%
Canada	-	2.0%
China	-	5.9%
Hong Kong	6.0%	-
Israel	-	1.3%
Netherlands	1.3%	4.3%
Norway	1.8%	1.8%
Singapore	-	0.6%
South Korea	-	0.3%
Taiwan	-	1.2%
UK	0.8%	0.8%
Uruguay	-	0.6%
USA	89.8%	76.0%

Wonderful businesses

Jeremy and I are pleased to report that the companies in Compounder Fund's portfolio have, in aggregate, continued to deliver healthy revenue growth in the third quarter of 2022. Table 9 below shows the year-on-year revenue growth rates for all the 50 companies that are currently in Compounder Fund's portfolio (the ones in Table 7) for a few time periods: The whole of 2020 and 2021, and the first, second, and third quarters of 2022:

Table 9

Company	2020 revenue growth	2021 revenue growth	Q1 2022 revenue growth	Q2 2022 revenue growth	Q3 2022 revenue growth
Activision Blizzard	24.6%	8.9%	-22.3%	-28.4%	**-13.9%**
Adobe	17.3%	18.0%	14.4%	12.7%	**10.1%**
Adyen	28.1%	46.4%	36.7%	36.7%	**-**
Alphabet	12.8%	41.2%	23.0%	12.6%	**6.1%**
Alteryx	18.5%	8.2%	33.0%	50.4%	**74.7%**
Amazon	37.6%	21.7%	7.3%	7.2%	**14.7%**
Apple	9.9%	28.6%	8.6%	1.9%	**8.1%**
ASML	18.3%	33.1%	-19.0%	35.1%	**10.2%**
Block	101.5%	86.0%	-21.7%	-5.9%	**17.4%**
Chipotle Mexican Grill	7.1%	26.1%	16.0%	17.0%	**13.7%**
Costco	12.8%	17.7%	16.2%	15.0%	**8.1%**
Coupang	90.8%	53.8%	21.6%	12.5%	**9.8%**
Datadog	66.3%	70.5%	82.8%	73.9%	**61.4%**
dLocal	88.4%	134.4%	117.2%	71.6%	**63.0%**
DocuSign	49.2%	45.0%	25.5%	21.6%	**18.3%**
Etsy	110.9%	35.0%	5.2%	10.6%	**11.7%**
Fiverr	77.0%	57.1%	26.9%	13.0%	**11.1%**
Haidilao	7.8%	43.7%	-16.6%	-16.6%	**-**
Hingham	27.4%	20.3%	15.1%	21.0%	**5.7%**
Illumina	-8.6%	39.7%	11.9%	3.2%	**0.6%**
Intuitive Surgical	-2.7%	31.0%	15.1%	4.0%	**11.0%**
Markel	17.0%	20.0%	27.0%	19.2%	**23.6%**
Mastercard	-9.4%	23.4%	24.4%	21.4%	**15.5%**
Medistim	-0.2%	17.7%	13.2%	7.0%	**14.1%**
Medpace	7.5%	23.4%	27.3%	26.2%	**29.8%**
Meituan	17.7%	56.0%	25.0%	16.4%	**28.2%**
MercadoLibre	73.0%	77.9%	63.1%	52.5%	**44.8%**

Table 9 (continue from above)					
Company	**2020 revenue growth**	**2021 revenue growth**	**Q1 2022 revenue growth**	**Q2 2022 revenue growth**	**Q3 2022 revenue growth**
Meta Platforms	21.6%	37.2%	6.6%	-0.9%	**-4.5%**
Microsoft	14.7%	20.6%	18.4%	12.4%	**10.6%**
MongoDB	40.0%	48.0%	57.1%	52.8%	**47.0%**
Netflix	24.0%	18.8%	9.8%	8.6%	**5.9%**
Okta	42.5%	55.6%	65.3%	43.2%	**37.2%**
Paycom Software	14.1%	25.4%	29.9%	30.9%	**30.4%**
PayPal	20.7%	18.3%	7.5%	9.1%	**10.7%**
Salesforce	24.3%	24.7%	24.3%	21.8%	**14.2%**
Sea	101.1%	127.5%	64.4%	29.0%	**17.4%**
Shopify	85.6%	57.4%	21.7%	15.7%	**21.6%**
Starbucks	-14.1%	31.0%	14.5%	8.7%	**3.3%**
Super Hi	-5.0%	41.1%	82.3%	82.3%	**-**
Tencent	27.8%	16.2%	0.1%	-3.1%	**-1.6%**
Tesla	28.3%	70.7%	80.5%	41.6%	**55.9%**
The Trade Desk	26.5%	43.1%	43.5%	34.6%	**31.1%**
Tractor Supply	27.2%	19.9%	8.3%	8.4%	**8.4%**
TSMC	25.2%	18.5%	35.5%	43.5%	**47.9%**
Upstart	42.0%	263.6%	155.6%	17.6%	**-31.2%**
Veeva Systems	32.7%	26.3%	16.5%	17.3%	**16.0%**
Visa	-8.7%	18.6%	25.5%	18.7%	**18.7%**
Wise	43.9%	32.3%	31.6%	50.5%	**59.3%**
Wix	29.9%	29.0%	13.6%	9.4%	**8.1%**
Zoom	325.8%	54.6%	12.3%	7.6%	**4.9%**

Source: Companies' earnings updates

Here's a table showing the simple averages of the year-on-year revenue growth rates for the fund's holdings for each quarter going back to the first quarter of 2020 (**note the high revenue growth rates for every quarter**):

Table 10

Simple averages for revenue growth from year ago	Compounder Fund current portfolio	Compounder Fund current portfolio (exclude Hingham and Super Hi, include Pushpay and Twilio)
Q1 2020	34.4%	34.5%
Q2 2020	31.7%	32.4%
Q3 2020	42.6%	43.3%
Q4 2020	44.1%	44.5%
2020	37.4%	38.9%
Q1 2021	54.7%	54.8%

Table 10 (continue from above)		
Simple averages for revenue growth from year ago	**Compounder Fund current portfolio**	**Compounder Fund current portfolio (exclude Hingham and Super Hi, include Pushpay and Twilio)**
Q2 2021	77.6%	77.2%
Q3 2021	38.4%	38.8%
Q4 2021	34.3%	34.7%
2021	43.7%	44.0%
Q1 2022	28.0%	27.4%
Q2 2022	21.4%	20.4%
Q3 2022	**19.3%**	**19.7%**

Source: Companies' earnings updates

As I mentioned in the "*Judging our performance*" section of this letter, it's been 'so far, so good' for the business results of Compounder Fund. **The fund's current crop of portfolio companies produced healthy year-on-year revenue growth of 19.3% (this is a simple average) in the third quarter of 2022**, **and this continues from the impressive revenue growth rates seen in prior quarters going back to 2020**. Table 11 below gives perspective on the far-superior growth rates for Compounder Fund's holdings compared to the S&P 500.

Table 11

Simple averages for revenue growth from year ago in a certain quarter	S&P 500	Compounder Fund current portfolio	Compounder Fund current portfolio (exclude Hingham and Super Hi, include Pushpay and Twilio)
Q1 2020	Around -2%	34.4%	34.5%
Q2 2020	Around -10%	31.7%	32.4%
Q3 2020	Around -2%	42.6%	43.3%
Q4 2020	Around -0.5%	44.1%	44.5%
Q1 2021	Around 10%	54.7%	54.8%
Q2 2021	Around 25%	77.6%	77.2%
Q3 2021	16.6%	38.4%	38.8%
Q4 2021	16.1%	34.3%	34.7%
Q1 2022	13.4%	28.0%	27.4%
Q2 2022	11.9%	21.4%	20.4%
Q3 2022	**12.1%**	**19.3%**	**19.7%**

*Source: **Yardeni Research** for S&P 500 data (data for S&P 500 is as of 04 January 2023; revenue growth rate for Compounder Fund is a simple average of the revenue growth from the fund's holdings)*

In our letter for 2022's third quarter, I mentioned:

> "Compounder Fund's holdings may continue to post *relatively*-slower revenue growth in the next few quarters."

This indeed came to pass. During the third quarter of 2022, Compounder Fund's portfolio companies produced an average revenue growth rate of 19.3%. This is a healthy growth rate and comfortably exceeds the S&P 500's corresponding revenue growth of 12.1% (great), but it's also a significant deceleration from what was achieved in each quarter in 2021 (not

great). 2021 is providing tough comparisons for the 2022 growth-rates of some of our companies as they had enjoyed a COVID-induced bump in their business fortunes. Moreover, there are signs of a broader economic slowdown that has affected some of our companies. But we're not worried. We invested in the companies that are currently in Compounder Fund's portfolio because their businesses are riding on - or creating - durable and lasting long-term trends. This means they still have massive market opportunities to grow into over the long run (you can read about this in detail in our investment theses for each company).

It's likely that Compounder Fund's holdings will continue to post *relatively*-slower revenue growth in the next few quarters. But consistent with what I've been sharing in our past quarterly letters, Jeremy and I continue to think there's a high chance that the fund's portfolio companies will, in aggregate, carry on producing pleasing year-on-year revenue growth in the years ahead. **And if these companies can sustain average annual revenue growth of around 25% in aggregate for the next five to seven years, *while producing healthy free cash flow* (an important requisite!)*,* we believe it will be exceedingly difficult for Compounder Fund's portfolio to *not* do well over the same timeframe and when measured from the fund's inception**. We're excited to see what the future brings.

Speaking of free cash flow, Compounder Fund's holdings did not manage to strengthen their cash flow muscles in the third quarter of 2022. Table 12 below shows the revenue growth for each company that's currently in the portfolio (the 50 companies in Table 7) for the quarter as well as the change in their free cash flow margins for the period. **During the third quarter of 2022, the simple-average free cash flow margin for all the fund's current holdings was 13.1%, down from 17.7% a year ago**. It has been a string of quarters where the free cash flow margin has declined on a year-on-year basis (the margin also fell in the second, third, and fourth quarters of 2021, and the first and second quarters of 2022), so we're watching this carefully. But there are a number of signs for optimism:

- The 13.1% seen in the third quarter of 2022 is slightly better than the 12.4% logged in the second quarter.
- Upstart's free cash flow margin of -68% in the third quarter of 2022 (vs 16.8% a year ago) dragged down the average significantly. The company is currently working through a change in its business model where it's trying to get more long-term funding agreements in place for the loans it's facilitating. If Upstart's numbers were removed, the simple-average free cash flow margin for Compounder Fund's current portfolio would be 15.0% in the third quarter of 2022, still down from 17.7% from a year ago, but with a significantly smaller gap.
- 26 companies in the current portfolio saw an improvement in their free cash flow margin in the third quarter of 2022 compared to the second quarter.

Given the nature and track records of the companies in Compounder Fund's portfolio, we continue to think that the long-term average free cash flow margin for the current crop of portfolio companies can grow to around 25% eventually and be maintained at that level.

Table 12

Company	Revenue growth in Q3 2022 from a year ago	Free cash flow margin in Q3 2022	Free cash flow margin in Q3 2021
Activision Blizzard	-13.9%	13.6%	24.1%
Adobe	10.1%	49.2%	47.7%
Adyen	-	-	-
Alphabet	6.1%	15.1%	28.4%
Alteryx	74.7%	-31.2%	-0.6%
Amazon	14.7%	-3.9%	-7.6%
Apple	8.1%	23.1%	20.4%
ASML	10.2%	13.9%	30.5%
Block	17.4%	-0.5%	9.8%
Chipotle Mexican Grill	13.7%	9.6%	8.8%
Costco	8.1%	2.9%	4.4%
Coupang	9.8%	-4.4%	-5.3%
Datadog	61.4%	15.4%	21.1%
dLocal	63.0%	74.2%	38.9%
DocuSign	18.3%	5.6%	16.5%
Etsy	11.7%	32.3%	15.2%
Fiverr	11.1%	6.4%	11.9%
Haidilao	-	-	-
Hingham	5.7%	-	-
Illumina	0.6%	-10.7%	-29.2%
Intuitive Surgical	11.0%	13.8%	30.9%
Markel	23.6%	-	-
Mastercard	15.5%	61.8%	44.2%
Medistim	14.1%	30.6%	43.0%
Medpace	29.8%	26.4%	22.2%
Meituan	28.2%	-	-
MercadoLibre	44.8%	23.0%	5.1%
Meta Platforms	-4.5%	1.0%	33.4%
Microsoft	10.6%	33.1%	38.7%
MongoDB	47.0%	-2.1%	-3.5%
Netflix	5.9%	6.0%	-1.1%
Okta	37.2%	1.2%	9.5%
Paycom Software	30.4%	13.0%	22.5%
PayPal	10.7%	25.8%	20.8%
Salesforce	14.2%	1.5%	3.5%
Sea	17.4%	-	-
Shopify	21.6%	-16.7%	2.7%
Starbucks	3.3%	6.6%	12.7%
Super Hi	-	-	-

Table 12 (continued from above)

Company	Revenue growth in Q3 2022 from a year ago	Free cash flow margin in Q3 2022	Free cash flow margin in Q3 2021
Tencent	-1.6%	19.7%	16.9%
Tesla	55.9%	15.4%	9.6%
The Trade Desk	31.1%	28.3%	34.3%
Tractor Supply	8.4%	-5.7%	-3.4%
TSMC	47.9%	23.9%	31.4%
Upstart	-31.2%	-68.0%	16.8%
Veeva Systems	16.0%	24.8%	23.2%
Visa	18.7%	71.7%	57.4%
Wise	59.3%	0.9%	21.9%
Wix	8.1%	-6.5%	-2.7%
Zoom	4.9%	24.1%	34.8%
Simple averages	**19.3%**	**13.1%**	**17.7%**

Source: Companies' earnings updates

(As of the publication of this letter, there's no quarterly free cash flow data available for Adyen, Haidilao, Meituan, Sea, and Super Hi for the third quarter of 2022. We did not include free cash flow data for Hingham and Markel because we don't think it's as important for the two companies - Hingham is a bank while Markel is predominantly an **insurer and investment holding company**, so we think the book value holds more meaning for them.)

In summary, we are satisfied with the aggregate business performance of Compounder Fund's portfolio holdings.

Near the beginning of this letter, I mentioned that I will have more to share on the stark differences between the business performances of Compounder Fund's holdings and their declining stock prices. Table 13 below shows a few things for the period from 30 September 2022 to 31 December 2022 for the fund's current crop of 50 companies: The change in their trailing revenues-per-share; the change in their trailing P/S (price-to-sales) ratios; and the change in their stock prices. I'm using revenue instead of earnings or cash flow because some of Compounder Fund's holdings are still reinvesting in their businesses for future growth. As a result, they currently are deliberately loss-making, have negative free cash flow, or have low profit and/or free cash flow margins.

Table 13

Company	Trailing revenue per share on 30 Sep 2022	Trailing revenue per share on 31 Dec 2022	P/S ratio on 30 Sep 2022	P/S ratio on 31 Dec 2022	Trailing revenue per share change from 30 Sep 2022 to 31 Dec 2022	P/S ratio change from 30 Sep 2022 to 31 Dec 2022	Stock price change from 30 Sep 2022 to 31 Dec 2022
Activision Blizzard	US$ 9.71	US$ 9.34	7.7	8.2	-3.9%	7.1%	3.0%
Adobe	US$ 36.34	US$ 37.38	7.6	9.0	2.8%	18.9%	22.3%
Adyen	€ 37.53	€ 37.53	34.7	34.3	0.0%	-1.0%	-1.0%
Alphabet	US$ 20.92	US$ 21.33	4.6	4.1	1.9%	-9.5%	-7.8%
Alteryx	US$ 9.34	US$ 10.66	6.0	4.8	14.2%	-20.5%	-9.3%
Amazon	US$ 47.76	US$ 49.34	2.4	1.7	3.3%	-28.0%	-25.7%
Apple	US$ 23.64	US$ 24.15	5.8	5.4	2.2%	-8.0%	-6.0%
ASML	€ 46.36	€ 49.33	9.1	10.3	6.4%	13.0%	31.6%
Block	US$ 29.01	US$ 29.64	1.9	2.1	2.2%	11.9%	14.3%
Chipotle Mexican Grill	US$ 288.94	US$ 299.28	5.2	4.6	3.6%	-10.9%	-7.7%
Costco	US$ 510.29	US$ 519.71	0.9	0.9	1.8%	-5.1%	-3.3%
Coupang	US$ 11.29	US$ 11.54	1.5	1.3	2.2%	-13.6%	-11.8%
Datadog	US$ 3.95	US$ 4.87	22.5	15.1	23.1%	-32.7%	-17.2%
dLocal	US$ 1.07	US$ 1.2	19.2	12.9	12.8%	-32.7%	-24.1%
DocuSign	US$ 11.68	US$ 12.15	4.6	4.6	4.1%	-0.4%	3.6%
Etsy	US$ 16.49	US$ 19.5	6.1	6.1	18.2%	1.2%	19.6%
Fiverr	US$ 8.84	US$ 9.07	3.5	3.2	2.5%	-7.1%	-4.7%
Haidilao	RMB 6.98	RMB 6.98	2.0	2.8	0.0%	41.3%	45.5%
Hingham	US$ 50.51	US$ 51.2	5.0	5.4	1.4%	8.4%	9.9%
Illumina	US$ 29.88	US$ 29.92	6.4	6.8	0.1%	5.8%	6.0%
Intuitive Surgical	US$ 16.33	US$ 16.82	11.5	15.8	3.0%	37.4%	41.6%
Markel	US$ 853.28	US$	1.3	1.5	5.5%	15.2%	21.5%
Mastercard	US$ 21.36	US$ 22.21	13.3	15.6	4.0%	17.4%	22.1%
Medistim	NOK 24.54	NOK 25.33	8.5	9.1	3.2%	7.9%	11.3%
Medpace	US$ 36.71	US$ 40.31	4.3	5.3	9.8%	23.1%	35.1%
Meituan	RMB 31.87	RMB 34.11	4.7	4.5	7.1%	-4.3%	5.5%
Mercado -Libre	US$ 175.31	US$ 188.21	4.7	4.5	7.4%	-4.8%	2.2%
Meta Platforms	US$ 43.76	US$ 43.46	3.1	2.8	-0.7%	-10.7%	-11.3%
Microsoft	US$ 26.3	US$ 27.13	8.9	8.8	3.2%	-0.2%	3.0%
MongoDB	US$ 15.91	US$ 17.41	12.5	11.3	9.4%	-9.4%	-0.9%
Netflix	US$ 68.72	US$ 69.76	3.4	4.2	1.5%	23.4%	25.2%
Okta	US$ 10.22	US$ 11.00	5.6	6.2	7.7%	11.6%	20.2%

Table 13 (continued from above)

Company	Trailing revenue per share on 30 Sep 2022	Trailing revenue per share on 31 Dec 2022	P/S ratio on 30 Sep 2022	P/S ratio on 31 Dec 2022	Trailing revenue per share change from 30 Sep 2022 to 31 Dec 2022	P/S ratio change from 30 Sep 2022 to 31 Dec 2022	Stock price change from 30 Sep 2022 to 31 Dec 2022
Paycom Software	US$ 20.82	US$ 22.16	15.8	14.0	6.4%	-11.6%	-6.0%
PayPal	US$ 22.63	US$ 23.26	3.8	3.1	2.8%	-19.5%	-17.3%
Salesforce	US$ 29.29	US$ 30.26	4.9	4.4	3.3%	-10.8%	-7.8%
Sea	US$ 21.08	US$ 21.88	2.7	2.4	3.8%	-10.6%	-7.2%
Shopify	US$ 3.97	US$ 4.15	6.8	8.4	4.6%	23.2%	28.8%
Starbucks	US$ 27.56	US$ 27.84	3.1	3.6	1.0%	16.6%	17.7%
Super Hi	US$	US$ 0.68	-	1.9	-	-	-
Tencent	RMB 57.19	RMB 57.55	4.2	4.9	0.6%	15.0%	19.1%
Tesla	US$ 19.38	US$ 21.59	13.7	5.7	11.4%	-58.3%	-53.6%
The Trade Desk	US$ 2.86	US$ 3.05	20.9	14.7	6.5%	-29.6%	-25.0%
Tractor Supply	US$ 117.48	US$ 120.2	1.6	1.9	2.3%	18.3%	21.0%
TSMC	NT 339.26	NT 385.70	6.4	5.9	13.7%	-7.9%	8.6%
Upstart	US$ 11.34	US$ 12.02	1.8	1.1	6.0%	-40.0%	-36.4%
Veeva Systems	US$ 12.31	US$ 12.81	13.4	12.6	4.0%	-5.9%	-2.1%
Visa	US$ 13.19	US$ 13.72	13.5	15.1	4.0%	12.4%	16.9%
Wise	£ 0.6	£ 0.68	11.0	8.3	12.8%	-24.5%	-14.8%
Wix	US$ 23.15	US$ 23.49	3.4	3.3	1.5%	-3.2%	-1.8%
Zoom	US$ 14	US$ 14.24	5.3	4.8	1.7%	-9.5%	-7.9%
Simple average	-	-	**7.6**	**7.0**	**5.0%**	-	-

Source: Companies' earnings updates

What Table 13 highlights: **Compounder Fund's businesses performed well over the past quarter with average sequential trailing revenue growth of 5.0% and 46 of them saw growth in their trailing revenues per share for 31 December 2022 compared to 30 September 2022. But the stock prices of many of them still fell because of a compression in their P/S ratios**.

This said, the decline in the P/S ratio (from an average of 7.6 to 7.0) is a welcome change from some prior quarters when Compounder Fund's holdings experienced even sharper P/S-ratio contractions. **We think Compounder Fund's holdings now have more-than-reasonable valuations (a continuation of a theme we saw when I wrote our letters for 2022's second and third quarters) and this bodes well for the fund's future return**. As of 31 December 2022, the companies currently in Compounder Fund's portfolio **have an average trailing P/S ratio of 7.0, and an average trailing free cash flow margin of 15.9%, which equates to an average P/FCF ratio of 44**. If Compounder Fund's companies had an average free cash flow margin of 25% today - around the level we think

they could achieve, eventually - **the implied P/FCF ratio would be even lower at 28**. For perspective, the implied P/FCF ratio of 28 comes from a group of companies - Compounder Fund's current portfolio - that produced impressive average revenue growth rates of 43.7%, 28.0%, 21.4%, and 19.3% for the whole of 2021 and the first, second, and third quarters of 2022, respectively.

Stock-based compensation and shareholder dilution

Note: *This section is written by Jeremy*

We **sold Compounder Fund's Twilio shares** last November. This is because we think Twilio's management has a poor understanding of the damage to the company's intrinsic value that could be caused by their use of stock-based compensation (SBC). The use of SBC by companies is something we're keeping a close eye on and we think it warrants a discussion in this quarter's letter.

Simply put, SBC is a form of remuneration where a company pays its employees with shares. Employees value SBC as it allows them to profit from a potential rise in the company's stock price. It also aligns employees' interests with that of the company's shareholders. This is critical for members of a company's management team who make executive decisions; the idea is that executives who earn SBC will make decisions that drive shareholder value over the long run. In addition, using shares instead of cash for compensation also helps a company's cash flow situation; for younger, cash-strapped companies, SBC can be a good way to attract talent until these companies can find their footing in terms of generating cash. But there are also downsides to using SBC, especially when a company's stock price has declined significantly in recent times (which is the case for many companies today).

Before discussing the downsides, it's important to understand how SBC works. The common forms of SBC we've seen are restricted stock units (RSUs) and options:

- RSUs are shares that are given to employees over a period of time. They are typically granted when an employee initially signs for a company or renews an employment contract. These RSUs typically vest over a few years. For example, an employee may start his employment at a company and be granted 100 RSUs that vest over four years. Essentially, the employee will get 25 shares of the company every year for four years.
- Options give an employee the right to buy shares of a company at a predetermined price and they typically vest over a number of years. For example, a company may give its employee 100 options - with an exercise price of $100 per option - that vest over four years. This means that in each year, the employee will collect 25 options and he or she can decide whether to exercise the option and convert it into shares. The employee will need to pay the company $100 per option in exchange for the shares. If the share price is more than $100 in the open market, the employee can sell the shares and pocket the difference.

Coming to the downsides of SBC, the first is it **leads to shareholder dilution**. Through SBC, a company is effectively issuing new shares to employees; by doing so, the total number of the company's outstanding shares increases. The higher number of outstanding shares means that the company's existing shareholders now own a smaller piece of the pie. For example, Palantir, a US-based company that provides software for organisations to

“effectively integrate their data, decisions, and operations at scale,” has 2.08 billion shares outstanding as of 30 September 2022. It also has 331.1 million unvested or unexercised options and 131.1 million unvested RSUs. When these options and RSUs vest (or are exercised), Palantir’s outstanding share count will increase by 22.2%. What this means is that Palantir’s economics will eventually have to be split among 22.2% more shares and each share of the company will thus be entitled to lesser economics.

Another downside of SBC is the **potential for unhappiness to fester within employees**. SBC is designed to reward employees when a company’s stock price rises. It also encourages employees to stay with the company in order to collect the RSUs and/or options that vest over time. But when a company’s stock price falls, its RSUs are worth less and there could be thus lesser incentive to stay. For example, in March 2021, Okta’s president of field operations, Susan St Ledger, was granted 43,130 service-based RSUs that would vest over four years after she joined the company in February. At the time of the grant, Okta’s stock price was around US$228. St Ledger currently has around 24,261 RSUs that have yet to vest. If she stays on at Okta for another two years, she will receive all of her unvested RSUs. At her grant-price, St. Ledger’s unvested RSUs are worth US$5.5 million. But Okta’s stock price has since fallen to US$68 at the end of December 2022; at that price, her unvested RSUs are worth just US$1.6 million. Okta announced in late-November last year that St Ledger would retire on 31 January 2023. While there may be many reasons behind her retirement decision, the sharp decline in value of her unvested RSUs in a short period of time may have played a role.

A third downside of SBC is that companies may **choose to make up for shortfalls**. As discussed above, a falling stock price can have a big impact on the actual dollar value of unvested RSUs that have been granted to employees. To retain talent, some companies with falling stock prices may opt to increase the number of RSUs that employees receive in order to make up for the decline in the dollar value of unvested RSUs that employees hold. For example, Zoom has done just that. The following sentence was found in Zoom’s annual report for the fiscal year ended 31 January 2022 (emphasis is mine):

> “In October 2021, we added a feature to new and *existing* stock awards that provide employees with additional awards based on certain stock price criteria.”

The key word here is “existing.“ In typical employee contracts, a company is not required to increase the number of RSUs if its stock price falls. A decline in the stock price is supposed to be the risk employees assume for agreeing to SBC. Moreover, employees are meant to be impacted by lower SBC, since this would motivate them to help grow the company’s business - and thus its stock price - over the long run. But Zoom decided to step in to make up for the loss in RSU-value by increasing the number of shares paid to employees above what was previously agreed. Eric Yuan, Zoom’s founder and CEO, has a reputation for emphasising employee welfare and pay packages are undoubtedly part of the equation. But Zoom’s action of retroactively increasing RSU grants is at the expense of the company’s current shareholders who are getting more dilution in the process.

The fourth downside of SBC that we see is the need for companies **to offer a higher number of shares to attract and retain talent** when stock prices fall. Let’s say a potential new hire for a company wants a pay package that includes $100,000 worth of RSUs per year. If the company’s stock price is $100, it would need to offer the employee 1,000 RSUs per year. But if the stock price falls to $50, the company would need to offer the employee 2,000 RSUs annually. This leads to twice as much dilution. This is a situation seen at Meta Platforms today. The total value of RSUs granted by the company in the first nine months of

2022 and 2021 were US$20.0 billion and US$16.2 billion, respectively, at each grant date. This is only a 22% increase in dollar value. But in the first nine months of 2022, Meta granted 99.4 million RSUs; for the same period in 2021, only 53.5 million RSUs were granted. This is an 86% increase. The discrepancy between the increase in value and the increase in the number of RSUs comes from the difference in the weighted average grant prices of US$201 per share for the first nine months of 2022 and US$302 for the first nine months of 2021. Meta's falling stock price over the course of 2022 meant that the company needed to grant more RSUs to provide a similar dollar-value of compensation to employees. As I've previously discussed, the more RSUs granted, the more dilution there is down the road. And it may get worse in the future with Meta's stock price being US$120 at the end of 2022.

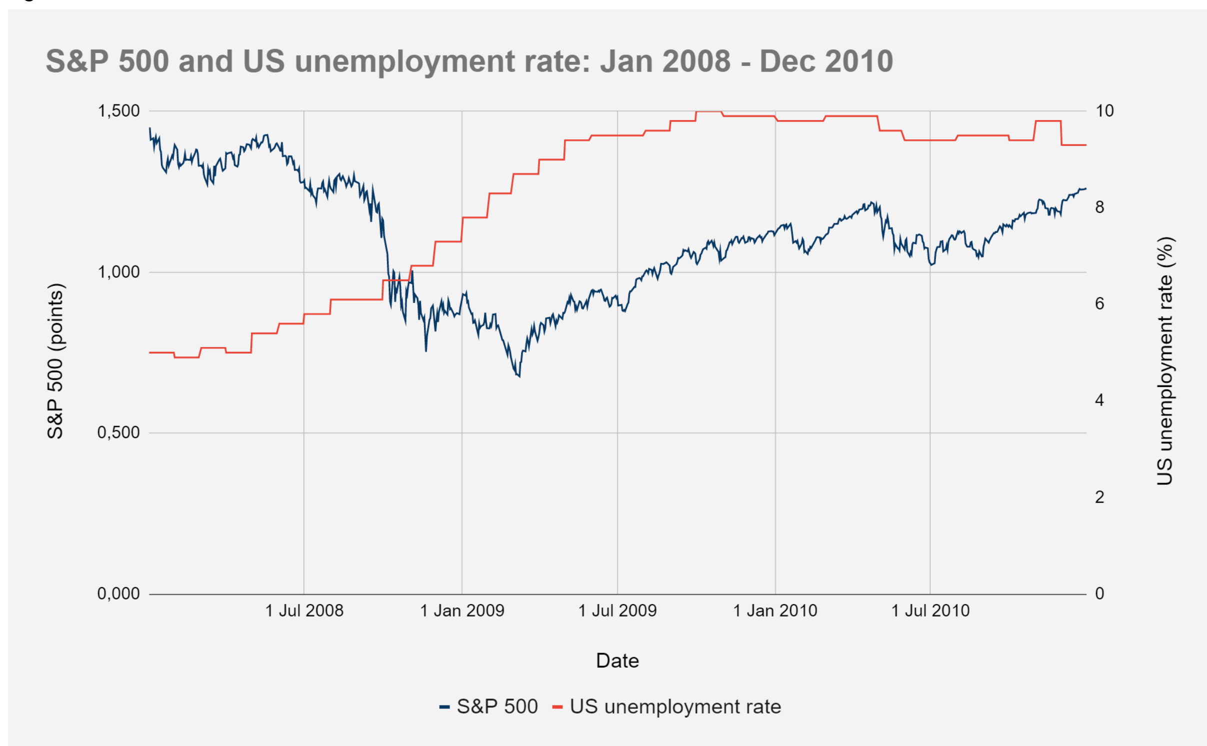
In our view, SBC should ideally be reserved for members of a company's C-suite, those who make important decisions for the company and its shareholders. Lower-ranked employees should be paid predominantly or exclusively in cash, especially when the company has sufficient cash on its balance sheet. Employees who want to own shares of their employer can use their cash compensation to buy shares in the stock market. This reduces dilution to shareholders. But we're not living in an ideal world and SBC has both pros and cons. In the current environment, with stock prices of many companies having fallen significantly from recent highs, SBC can be a real problem if it results in lacklustre *per share* growth in a company's business. Of the two Compounder Fund portfolio holdings that we had used as negative examples in this section, namely Meta and Zoom, their dilution rates so far in 2022 (the number of grants awarded against the number of outstanding shares) are 3.7% and 6.1%, respectively. We don't see these as dangerously-high dilution rates since we think both companies are likely to produce strong double-digit revenue and cash flow growth rates in the years ahead. But we're still keeping a close watch on how their management teams - as well as the management teams of all of Compounder Fund's other portfolio holdings - handle the issue of SBC and dilution.

Recession and stocks

In the "*Recession, inflation, and interest rates*" section of Compounder Fund's **2022 third-quarter letter**, I discussed why jumping in and out of stocks based on whether a recession is coming or ending is a bad idea. It seems that many people are currently obsessed with whether the US is on the verge of - or already experiencing - a recession, based on the commentary that Jeremy and I have been seeing lately. In light of this, we think it is apt, in this section, to bring up as well as expand on the following point we made in the third-quarter letter: **That stocks tend to bottom before the economy does.**

When I wrote about stocks reaching a trough before the economy, I used historical examples. One of them involved the S&P 500's experience during the US's most recent recession prior to COVID, which lasted from December 2007 to June 2009. Back then, the S&P 500 reached a low of 676 in March 2009 (on the 9th, to be exact), three months before the recession ended; from its trough to 919 at the end of June 2009, the S&P 500 was up by 36%. Although the recession ended in June 2009, the US economy continued to worsen in at least one important way over the next few months. Figure 2 shows that the unemployment rate in the country was 8.7% in March 2009, rose to 9.5% in June, and crested at 10% in October. But by the time the unemployment rate peaked at 10%, the S&P 500 was 52% higher than its low in March 2009 and it has not looked back since.

Figure 2



Source: Federal Reserve Bank of St. Louis, Yahoo Finance

During an economic downturn, it's natural to assume that it's safer to invest when the coast is clear. **But history says that's wrong, and so do the wise**. At the height of the 2007-09 Great Financial Crisis, which was the cause of the aforementioned recession, Warren Buffett wrote a now-famous op-ed for the *New York Times* titled simply, "***Buy American. I Am.***" In it, Buffett wrote (emphasis is mine):

> "A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful. And most certainly, fear is now widespread, gripping even seasoned investors. To be sure, investors are right to be wary of highly leveraged entities or businesses in weak competitive positions. But fears regarding the long-term prosperity of the nation's many sound companies make no sense. These businesses will indeed suffer earnings hiccups, as they always have. But most major companies will be setting new profit records 5, 10 and 20 years from now.
>
> Let me be clear on one point: I can't predict the short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month or a year from now. **What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up**. **So if you wait for the robins, spring will be over**."

If you wait for the robins, spring will be over. This is a really important lesson from Buffett that we should heed throughout our investing lives. Meanwhile, investing only when the coast is clear is a thought we should banish from our minds.

A company we're watching (part 3)

This is the third time I'm writing about a company that Jeremy and I are watching for Compounder Fund. The first two times were in the fund's letters for the fourth quarter of 2021 and first quarter of 2022, where I shared about Planet and Kaspi, respectively (see **here** and **here**). The following excerpt from the 2021 fourth-quarter letter explains why such discussions are important:

> "Jeremy and I spend significant portions of our working hours studying companies that are not in Compounder Fund's portfolio. We do this to unearth new investment opportunities that could improve the portfolio's quality. But our bar is high, so we reject companies often. When a company's rejected, we either decide to stop following it or place it in a watch list if we're interested to continue following its progress. Late last year, we placed Planet, a company based in the USA, on our watch list. In this section of this letter, I want to share our thoughts on Planet, with the hope that all of you can gain an even deeper understanding of our investment process for Compounder Fund."

This time, the company in the spotlight is Argan, which is based and listed in France. We first came across Argan from an October 2022 **Twitter post** created by a user with the handle @long_equity. As we learnt more about the company, we found many things to like:

- **Argan has a simple business that adds value to its customers**. The company develops, owns, and rents out premium warehouses that are located in France. Argan has expertise across the entire spectrum of activities related to premium warehouses: From land-search and identification of customers' needs, to the development of the facilities and the maintenance of the buildings. Argan "guarantees [its] clients a single point of contact right from design and development of their warehouses and throughout the term of their lease." At the end of 2021, Argan's portfolio consisted of 90 buildings (78 logistics hubs and 12 fulfilment centres, most of which were developed by the company). These properties, which have an average size of 35,000 m^2, collectively offer 3.265 million m^2 of usable space. The company's customers include logistics services providers (such as FM Logistic and DHL) and manufacturers and/or distributors of products (such as L'Oreal, Carrefour, and Decathlon); the latter category accounts for the majority of Argan's tenants.
- **The company has a large and expanding market opportunity**. At the end of 2021, there was 63 million m^2 of warehouse space in France (this includes only warehouses of more than 5,000 m^2), of which 66%, or 42 million m^2, was leased. Moreover, an average of 1.8 million m^2 of new warehouse space was added to the French market annually in the five years ended 2021. Key drivers of the growth in France's warehouse market include "the increasing importance of logistics in a connected economy, new patterns of consumption, especially via ecommerce, and demand for shorter delivery times." Argan's portfolio currently represents just around 8% of France's warehouse rental supply.
- **It has reasonable amounts of debt**. As of 30 June 2022, Argan's net-debt to equity ratio was only 71.5%.
- **The company is founder-led, and its management team has low remuneration while having significant skin in the game**. The 79-year old Jean-Claude Le Lan founded Argan in 1993 and is currently Chairman of the company. Le Lan's sons - Jean-Claude Le Lan Junior, Nicolas Le Lan, and Ronan Le Lan - are either on Argan's board or hold important leadership positions in the company. Together,

Jean-Claude Le Lan and his family currently control 9.16 million Argan shares as of 31 December 2022. These shares represent around 40% of Argan's total shares and voting power and are worth nearly €700 million at Argan's end-December 2022 stock price of €76. In 2021, the total remuneration of Jean-Claude Le Lan, Jean-Claude Le Lan Junior, and Ronan Le Lan, was €96,000, €760,131, and €882,483, respectively. Nicolas Le Lan's remuneration was just €12,000 in the same year. For perspective, Argan's rental income and recurring net income in 2021 were €156.8 million and €111.9 million, respectively.

- **The management team is forward-thinking**. For example, Argan started installing solar panels in all its new warehouses from 2018 onwards. Currently, the company has 0.45 million m^2 of warehouses that are equipped with solar energy systems and these systems are producing 20,600 MWh of energy per year, helping to lower annual carbon emissions by 1,200 tonnes. In another instance, Argan launched its **Aut0nom** series of premium warehouses in 2022. *Aut0nom* warehouses come with solar energy systems and battery systems for energy storage; the battery systems are a first in France and covers the warehouses' energy-needs for heating and lighting. The *Aut0nom* warehouses also come with the following features: Highly efficient electric air-to-air heat pumps for heating and cooling the warehouses (the pumps are four times more efficient than gas boilers and lower carbon dioxide emissions by 95%); energy-cost-savings for tenants *and* higher rental income for Argan; and a significant improvement in comfort levels for people working in the warehouses, as an *Aut0nom* warehouse is heated in winter and cooled in summer, a trait not found in gas-heated warehouses.
- **Argan has an excellent long-term track record of growth** in its rental income, recurring net income, warehouse portfolio value, net asset value (NAV) per share, and property portfolio, as shown in Table 14 below. Moreover, management has done an excellent job at maintaining full or near-full occupancy for Argan's properties over time.
- **It had a low valuation**. At the end-December 2022 stock price of €76, which was around the price-range Argan's shares were trading at throughout November and December, Argan had a price-to-book (P/B) ratio of just 0.7.

Table 14

Time period	Argan rental income (€, million)	Argan recurring net income (€, million)	Argan ware-house value (€, million)	Argan NAV per share (€)	Argan no. of ware-house proper-ties	Argan property portfolio occu-pancy rate	Argan total area of portfolio (million m²)
Year 2008	26.1	-	370.3	16.60	-	-	-
Year 2009	30.2	17.1	370.9	13.40	-	-	-
Year 2010	37.8	20.9	539.3	16.90	33	100%	0.81
Year 2011	43.5	23.6	614.9	15.90	34	100%	0.94
Year 2012	52.0	27.8	753.5	16.40	40	98%	1.10
Year 2013	61.9	30.4	839.5	18.30	42	98%	1.25
Year 2014	66.2	37.4	902.4	20.50	45	98%	1.33
Year 2015	67.4	38.0	890.1	23.80	45	98%	1.41
Year 2016	67.1	40.3	1,022.5	30.00	46	99%	1.37
Year 2017	75.6	49.9	1,255.9	36.20	59	99%	1.60
Year 2018	85.4	58.7	1,385.6	44.80	58	100%	1.63
Year 2019	100.2	71.1	2,734.6	61.30	85	99%	2.86
Year 2020	142.4	103.4	3,074.9	73.00	87	100%	2.99
Year 2021	156.8	111.9	3,793.3	102.50	90	99%	3.27
First half of 2022	81.7	58.2	4,090.1	114.70	~100	99%	3.28
Compound annual growth rates							
2008 to 2021	14.8%	-	19.6%	15.0%	-	-	-
2016 to 2021	18.5%	19.1%	30.0%	27.9%	19.0%	-	14.4%

Source: Argan filings

But there is one major concern we have about Argan that explains why it’s not currently among Compounder Fund’s holdings. The growth in rental income of Argan’s warehouse portfolio has been an important driver of the impressive growth in the portfolio’s value, and thus the company’s NAV per share. **But there was another key factor at play, namely, a substantial decline in the portfolio’s capitalisation rate (or “cap rate”)**. The cap rate is calculated by dividing the current value of a property by its net operating income; at the same net operating income, the higher a property’s value, the lower the cap rate is.

Table 15

Time period	Argan cap rate for warehouse portfolio	Argan warehouse portfolio value (€, million)	Argan warehouse portfolio value, if cap rate was at higher of 7.8% or what was actually used in the year (€, million)	Argan NAV per share (€)	Argan NAV per share, adjusted for cap rate (€)
Year 2008	7.80%	370.3	370.3	16.60	16.60
Year 2009	8.50%	370.9	370.9	13.40	13.40
Year 2010	7.80%	539.3	539.3	16.90	16.90
Year 2011	7.80%	614.9	614.9	15.90	15.90
Year 2012	7.75%	753.5	748.7	16.40	16.09
Year 2013	7.70%	839.5	828.7	18.30	17.52
Year 2014	7.65%	902.4	885.0	20.50	19.27
Year 2015	7.35%	890.1	838.8	23.80	20.22
Year 2016	7.00%	1,022.5	917.7	30.00	22.77
Year 2017	6.85%	1,255.9	1,102.9	36.20	26.79
Year 2018	6.35%	1,385.6	1,128.1	44.80	29.02
Year 2019	5.30%	2,734.6	1,858.1	61.30	21.89
Year 2020	5.05%	3,074.9	1,990.8	73.00	24.37
Year 2021	4.30%	3,793.3	2,091.2	102.50	27.16
First half of 2022	4.10%	4,090.1	2,149.9	114.70	30.13

Source: Argan filings

Table 15 above shows the sharp decline in the cap rate of Argan's warehouse portfolio from 7.8% in 2008 to 4.1% in the first half of 2022. The rental income from Argan's properties has risen at a slower pace than the value of its properties, especially in the 2016-2021 period (see Table 14); this has resulted in the fall in Argan's cap rates, which may not be sustainable in the current environment. Benchmark interest rates in Europe have increased in the second half of 2022, to levels that were last seen between the end of 2008 and early 2009, depending on the benchmark used. Against this backdrop, we're worried that Argan's cap rate would rise in the future and thus cause a fall in the value of the company's warehouse portfolio.

Table 15 also shows what Argan's warehouse portfolio value and NAV per share would look like if the cap rate was at the higher of 7.8% or the actual number. It turns out that Argan's NAV per share in the first half of 2022 would be substantially lower at a 7.8% cap rate (€30.13 versus €114.70). Using the adjusted NAV per share, Argan's P/B ratio would rise to 2.5 at the stock price of €76. Even with a cap rate of 6%, Argan's adjusted NAV per share for the first half of 2022 would be €58, which equates to a P/B ratio of 1.3. **These look like high P/B ratios to us. Moreover, Argan's balance sheet will be substantially weaker at a higher cap rate**. For perspective, the net-debt to equity ratio of 71.5% (as of 30 June 2022) **would rise to an estimated 154% if the cap rate was at 6% instead**. But we're happy to

continue observing Argan's developments for Compounder Fund, as we think highly of the company's business and management team.

House-keeping matters and what's next

Compounder Fund's audit for calendar year 2022 - to be conducted by Baker Tilly - should be wrapped up by the end of the first half of this year. Once the audit report's finalised, Jeremy and I will be sending a digital copy of it to all of Compounder Fund's investors. As a reminder, on 11 May 2022, we sent a digital copy of Compounder Fund's audited financial statements for 2021 to all of the fund's investors. If you did not receive it, or if you joined the fund as an investor after 11 May 2022 and would like a digital copy of the audited financial statements for 2021, please let Jeremy and me know.

As Jeremy and I have shared before, giving back to society is one of the four key pillars of Compounder Fund's mission to "Grow *Your* Wealth & Enrich Society." In the fund's website, we **mentioned** that "we are setting aside at least 10% of every dollar we earn from Compounder Fund in each year for charities of our choice" and that "we will audit our giving." The first audit for our giving, conducted by Baker Tilly, covered the period from November 2019 (when we started building the fund) to December 2021. The second audit period will be for calendar-year 2022 and will also have Baker Tilly as the auditor. We will share the audit report on the fund's website when it is ready; as a reminder, all the audit reports for our charitable giving are available on the fund's website **here**. If you are interested to know more, feel free to reach out!

Another of the key pillars of Compounder Fund's mission involves investor education. To this end, Jeremy and I are running Compounder Fund transparently. We have released the investment theses for all of Compounder Fund's current holdings (for your convenience, all our theses can be **found here**), except for Hingham's, which should be ready in the coming weeks. We will inform you once it is published.

Compounder Fund's next subscription window will close in the middle of March 2023 and it will have a dealing date on the first business day of April 2023 (which should be 3rd April). If you would like to increase your investment in the fund, please submit the relevant paperwork by the middle of March 2023. Jeremy and I are happy to assist with any queries you may have.

Optimism (as always!)

There are a myriad of important political, social, economic, and healthcare issues that are plaguing our globe today. But Jeremy and I are still long-term optimistic on the stock market. This is because we still see so much potential in humanity. There are more than 8.0 billion individuals in the world **right now**, and the vast majority of people will wake up every morning wanting to improve the world and their own lot in life. *This* is ultimately what fuels the global economy and financial markets. Miscreants and Mother Nature will occasionally wreak havoc but we have faith that humanity can clean it up. To us, investing in stocks is ultimately the same as having faith in the long-term positivity of humanity. We will remain long-term optimistic on stocks so long as we continue to have this faith.

I recently saw a **post** on Instagram from the user "historyphotographed" that provided an incredible perspective on the immense difficulties we would have to endure as we grew up if

we were born in 1900 in the USA. Here's a timeline of the major events we would face at various ages:

- Age 14 - World War I (22 million people would ultimately die when the war ends four years later)
- Age 18 - Spanish Flu (the epidemic would last for two years and would ultimately kill 50 million people)
- Age 29 - The Great Depression (at the peak of the depression, the unemployment rate in the USA was 26% and global GDP would fall by more than a quarter)
- Age 39 - World War II (75 million people would perish by the time the war ends six years later)
- Age 52 - Korean War (five million people would lose their lives in the three-year war)
- Age 62 - Cuban Missile Crisis (the world was on the brink of a nuclear war)
- Age 64 - Vietnam War (the battle would eventually cost four million lives)

How did US stocks fare from 1900 (the year of our birth) to 1975 (the end of the Vietnam war)? Table 16 shows that it's essentially "up and to the right", although some of the gains took some time to materialise and there were periods of drastic declines (and bear in mind that I'm showing only the price; if dividends were included, the gains would be much higher):

Table 16

Year	S&P 500 price at end of the year
1900	6.87
1914	7.35
1918	7.90
1929	21.40
1939	12.37
1952	26.04
1962	62.64
1964	83.96
1975	88.70

Source: Robert Shiller data

The only time Jeremy and I will turn pessimistic on the long-term returns of stocks is when they become wildly overpriced - and we don't think this is the case today. This does *not* mean that stocks are cheap or that stocks won't fall in the months or next year or two ahead (remember, we don't know what the journey will look like). It only means that we think valuations are somewhat reasonable and that investing now will likely lead to a satisfactory outcome, if we have a multi-year time horizon and we're invested in fast-growing companies. **With your support, we have both ingredients at Compounder Fund.**

Final words

If you have any questions related to Compounder Fund's administrative matters or our general investment thinking, please know that our email inboxes are always open to you. Thank you again for trusting Jeremy and me with your hard-earned capital. We deeply appreciate your trust and support (especially in difficult times like these), your belief in Compounder Fund's mission to "Grow *Your* Wealth & Enrich Society," and your understanding of the investing approach that we are taking.

Your deep understanding of our long-term-oriented investment style gives us the space we need to do our work (analysing businesses and their possible long-run futures) to the best of our abilities, for you. **So, thank you all again for being the wonderful investors that you all are. And please, *never* underestimate your importance in helping to shape Compounder Fund's long-run return.**

You can expect to see Compounder Fund's 2023 first-quarter investors' letter in mid-April 2023. Till then, stay safe and take care.

Excelsior,
Chong Ser Jing
Co-founder and Portfolio Manager, Compounder Fund
12 January 2023

P.S.: You can find all of our **past investors' letters here**.

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